

BILL # SB 1433

TITLE: tax exemption; liquid natural gas

SPONSOR: Martin

STATUS: As Introduced

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FISCAL ANALYSIS

Description

This bill would provide a transaction privilege and use tax exemption on a certain portion of natural gas purchases made by natural gas liquefaction facilities. Natural gas powers the liquefaction process. This bill would exempt the amount of natural gas consumed by processing. The bill makes the exemption retroactive to August 1, 2005.

Estimated Impact

This bill has an estimated General Fund cost of between \$277,800 and \$479,400 in FY 2007, including the one-time retroactive exemption. The bill would reduce ongoing use tax revenue to the General Fund between \$144,000 and \$278,400 annually. However, this ongoing fiscal impact may also be viewed as forgone revenue since these particular use taxes were not collected before this fiscal year.

Analysis

The Department of Commerce and the liquid natural gas suppliers of the Arizona Department of Administration's motor pool confirm that only one facility in Arizona liquefies natural gas. In August 2005, that facility changed ownership. While the previous owner viewed the natural gas powering the liquefaction process as an ingredient, exempt from taxation, the new owner chose a more conservative approach. The new owner has been paying taxes on its entire natural gas purchases, including the consumed portions, since August 26, 2005, and seeks legislative relief through this bill.

This bill provides the same exemptions for both transaction privilege and use taxes. Transaction privilege taxes apply to items purchased within the state for use within the state, while use taxes apply to items purchased out of state for use within the state. The new liquefaction facility owner makes all its natural gas purchases through an out-of-state contact. Therefore, the bill practically impacts only use taxes.

From August 26, 2005 to December 31, 2005, the new owner reports paying \$61,800 in use taxes on the consumed portion of its natural gas purchases. The retroactive nature of this bill would repay this amount to the owner in FY 2007. Therefore, the amount represents part of the cost to the General Fund.

Depending on production levels at the facility, variations in the efficiency of the liquefaction process, and changes in natural gas prices, the owner estimates that its use tax payments might be as low as \$12,000 per month on the consumed portion of its natural gas purchases. While low, this estimate appears plausible as the bottom of the dollar range.

Assuming that the bill would take effect at the end of FY 2006, the bill's retroactive provisions would require repayment of use taxes collected in the last 6 months of that fiscal year. Adding 6 months at the lower estimate to the reported \$61,800 amount for the beginning of FY 2006 yields a total of \$133,800 paid from the General Fund back to the owner in FY 2007. Additionally, according to the low-end estimate, the state would forgo \$144,000 annually in use tax collections from FY 2007 onward.

Meanwhile, the liquefaction facility has a production capacity of 86,000 gallons of liquid natural gas daily. When the liquefaction process is less efficient, it can consume up to 15% of the original natural gas purchase for power. Therefore, the process could consume up to 1.2 million cubic feet of natural gas daily.

The Energy Information Administration of the U.S. Department of Energy reports a 6-month high price for natural gas of \$10.97 per thousand cubic feet in October 2005. This price applies to purchases at the wellhead, while the Arizona facility makes purchases from a pipeline. The most recent pipeline surcharge information, from June 2005, suggests that charge ranges around \$0.20 per thousand cubic feet of natural gas.

Therefore, assuming a high price of \$11.17 per thousand cubic feet, the Arizona facility could pay as much as \$13,800 per day to purchase that portion of natural gas consumed in the liquefaction process. The 5.6% use tax on this amount totals \$774 per day or \$23,200 per month. Using this upper estimate, the bill's retroactive provisions would require repayment of \$139,200 for the last 6 months of FY 2006, or a total of \$201,000 paid from the General Fund back to the owner in FY 2007. Lastly, according to the high-end estimate, the state would forgo \$278,400 annually in use tax collections from FY 2007 onward.

Local Government Impact

While this bill provides the same exemptions for both transaction privilege and use taxes, the only existing liquefaction facility in Arizona makes all its natural gas purchases through an out-of-state contact. Therefore, this bill practically impacts only use taxes. Local governments do not share in use tax revenues.

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